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C O N F I D E N T I A L SECTION 01 OF 04 LAGOS 000438

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SUBJECT: FUNDAMENTALS OF ILLEGAL OIL BUNKERING IN NIGERIA

Classified By: Consul General Donna M. Blair for Reasons 1.4 (B,D)

SUMMARY

¶1. (C) Oil theft, widely referred to as "illegal bunkering" in Nigeria, represents a significant economic activity with serious ramifications for Nigeria's economy, security, democracy and environment. The widespread association of illegal bunkering with militant activity obscures some of the most detrimental aspects of this large-scale, unofficial sector of the economy. Oil theft ranges from siphoning off tiny quantities of crude oil from rusted and ruptured pipelines by individual villagers for private use to sophisticated and difficult to quantify "creative accounting" on the part of well-placed individuals. Illegal bunkering and its dependent economic sectors have replaced legitimate economic activity in large parts of the Niger Delta. END SUMMARY.

OLD PIPES, LOCALIZED VANDALISM, LARGE-SCALE THIEVERY

¶2. (C) Oil theft occurs at the most basic level when pipelines rupture or spring leaks, allowing local inhabitants to siphon off the oil for private use. Many leaks occur throughout the Niger Delta for purely technical reasons because roughly 70 percent of the pipelines in the Niger Delta are over 30 years old, have exceeded their technical life-span, and are laid near to the surface. The high quality of Nigerian "light" crude means that oil from such leaks can be processed in primitive, "back yard" refineries into a product which can be used in domestic generators or sold to filling stations, mixed with refined petroleum products, and used for powering vehicles and vessels.

¶3. (C) Local inhabitants, recognizing the economic value of oil siphoned off from spills, took this activity one step further by damaging pipelines and flow stations to siphon off oil for personal use or sale. This kind of vandalism -- distinguishable from the more publicized attacks by armed men using explosives to cause major damage to oil installations -- according to many interlocutors resident in the Niger Delta, has become much more common than attacks. Such activity remains unaffected by the recent amnesty except to the extent that law enforcement agencies now have readier access to areas previously dominated by militants.

¶4. (C) Individuals transfer oil extracted illegally from

facilities, by whatever means, into containers and onto barges or lighters, which then take the oil to tankers. This process of "bunkering" is what has given the business of oil-theft in Nigeria its common name. Aerial and satellite photography confirm the loading of hundreds of barges with oil each day. The barge cargoes transfer to smaller tankers, many of which foreigners operate under false names and registrations. U.S., U.K., and Lebanese citizens participate in this trade, according to the head of the Delta State Integrated Development Program Godwin Akpobire. These "feeder" tankers may off-load at nearby ports or transfer their cargoes to larger tankers waiting farther off-shore, which simply "top up" a legal cargo of crude oil with a small percentage of illegal oil - allegedly often for the captain's personal account.

15. (C) The process of "bunkering" and off-loading oil at terminals or tankers requires a network of accomplices to provide protection from the security forces of the oil companies and the Nigerian State to transport, transfer and sell the oil at international market prices. Leaders of armed bands arrange "internal" protection when they steal oil, while those outside "militant" groups bribe official security forces to "look the other way" during loading and transport of specific barges or when tankers tie up at terminals.

16. (C) Various contacts, including those in the shipping community and Akpobire, allege that senior military commanders own many of these barges which the military "does not see." Exxon contacts claim that naval officers have

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forced their employees at gun point to pump oil into illegal barges or tankers. Higher ranking military officers or civilian leaders protected barges of illegal oil against attacks by militants before the amnesty by "settling" (paying) the militants in advance. Operators of tankers and tanker terminals, including employees of major international oil companies and local contractors, allegedly colluded in many illegal transactions.

17. (C) Oil can also be stolen without disruption to the legitimate flow of oil from the well-head to the tank farm and without the use of force - much less the messy business of "bunkering" the oil in the creeks. Such thefts occur when individuals fail to register portions of the oil delivered to and stored at official tank farms on the official accounts of the Nigerian National Petroleum Corporation and, instead, sell such oil "under the counter" or "off book" for the account of one or more beneficiaries. Different contacts on various occasions told ConGen personnel that this method accounts for the largest volume of oil stolen in Nigeria and that the beneficiaries of this "creative accounting" involve people "very close to the presidency."

DISTORTING THE ECONOMY OF A NATION

18. (C) Oil theft siphons off the "life-blood" of the Nigerian economy for private gain before taxation or crediting to the national account. Various experts have estimated the volume of oil theft at between 100,000 and 250,000 barrels per day or as much as 91 million barrels per year. This amounts to billions of dollars in lost revenue for the Nigerian treasury every year, regardless of the price of oil on any given day. (NB: At current oil prices the annual revenue loss is between \$ 2.9 and \$ 7.3 billion. END NOTE.)

19. (C) Individuals benefitting from the sale of stolen oil do not re-invest in oil exploration or production. While some of the revenues may filter down to inhabitants by way of pay-offs, the bulk of earnings are diverted outside the country into the international bank accounts of the

beneficiaries.

CAUSING ENVIRONMENTAL DAMAGE

¶10. (C) Meanwhile, tampering with or sabotage to pipelines and flow-stations and careless handling during the bunkering process cause the greatest environmental damage to the region, according to environmental activists. Vast areas of the Niger Delta have become saturated with oil as a result of the many oil spills associated with illegal bunkering and pipeline sabotage. Traditional livelihoods, such as fishing and farming, have become increasingly difficult if not impossible to pursue. Alternative jobs, however, have not been created for the largely unskilled and poorly educated residents of the impacted areas.

¶11. (C) Residents who have no legitimate opportunities to earn a living have more incentive than ever to engage in pipeline sabotage and oil theft or to try to profit from the oil bunkering of others. One popular pastime involves demanding monetary compensation for environmental damage. Villagers are keen to direct oil spills, whether accidental or intentional, to their communities for the short-term economic benefit of selling the oil on the local market or claiming damages from the International Oil Companies (IOCs). According to environmentalists, communities have vandalized pipelines to claim compensation.

¶12. (C) A more sophisticated economic model entails communities forming "service companies" which offer either "protection" or "environmental clean-up" services. Local inhabitants on the payrolls of these companies either provide armed guards for installations or conduct environmental "clean-up" after spills - which community residents may or may not have caused. These local environmental clean-up companies, which usually lack training and equipment, often expose their workers to serious health risks. Some village

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leaders charge IOCs for operating in their areas with the threat that if they do not get "settled" there will be illegal bunkering or militant attacks would occur.

FUELING INSECURITY

¶13. (C) Many of the arms in circulation in the Niger Delta, including a variety of sophisticated weapons, have been purchased with money derived directly or indirectly from illegal bunkering. Insecurity in Nigeria results, in part, from accessibility of oil-purchased arms with illegal bunkering serving as a major contributor to Nigeria's violent crime, armed robbery, piracy and kidnapping.

¶14. (C) The immense wealth derived from illegal bunkering ensures that those profiting from it have no interest in a well-policed, stable Niger Delta. Many interlocutors have stressed that peace in the Niger Delta will reduce the opportunities for profit from illegal bunkering activities. They suggest that everyone along the chain, from the president's inner circle to those "service" companies that profit from "protection money," will resist finding a permanent solution. These interests will persist beyond amnesty, according to these contacts.

¶15. (C) Some Joint Task Force (JTF) members, in particular, remain reluctant to see an end to the "crisis" in the Niger Delta, according to many contacts. Officers and enlisted personnel allegedly pay large premiums for the opportunity to serve in the JTF because the profits derived from protecting or participating in illegal bunkering far outweigh such premiums and the risks of deployment. Nigerian Navy officers allegedly pay up to 30,000 dollars for the opportunity to

serve in the Delta. Some military officers are so successful that they have bought multi-million dollar homes in high-end neighborhoods in Lagos.

¶16. (C) Profits from illegal bunkering became high enough in the last several years to enable both JTF members and "militants" to profit and co-exist without seriously interfering with each other's activities. Some observers compared the relationship between the JTF and major militant groups to arrangements between rival gangs in U.S. urban areas; generally each JTF unit and militant band had its own territory in which they operated and from which they derived their illicit incomes. Fighting only erupted when disputes arose about boundaries or when one group "poached" in the territory of another or did not "settle" the other properly. Some observers assert that the JTF offensive last May largely resulted from a misunderstanding between militant leader Tom Polo and a new JTF commander that escalated out of control. Many contacts speculate that the impact of the amnesty will be a return to the "status quo ante" before the May offensive in Delta; i.e., relative peace will enable both sides to pursue their business interests without large displays of force on either side and despite GON "lip service" about "cracking down" on illegal bunkerers.

UNDERMINING DEMOCRACY

¶17. (C) Widespread illegal bunkering has led to control by armed bands over large areas in the oil-producing states. Some armed groups claimed political objectives, but others remained openly criminal; all armed groups intimidated and dominated the communities in the territory they controlled, undermining traditional leadership and social structures. Militant presence in a community also made these communities more likely to become targets for military action. Tens of thousands of inhabitants fled their homes and hid in the jungle for weeks during the May offensive against militants in Delta State. The presence of armed bands also inhibited the delivery of regular government services and infrastructure, rendering the areas dominated by militants ungovernable and isolated from democratic institutions and processes.

COMMENT

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¶18. (C) Nigerian officials repeatedly request U.S. assistance to prevent bunkering. The reality, however, is that most oil bunkering is not a global phenomenon readily susceptible to international deterrence, but a largely Nigerian development that requires domestic resolution. No other, major oil-producing country, to our knowledge, loses as much revenue from illicit oil bunkering as Nigeria, largely because the political elite, militants, and communities profit from such operations. Tackling this problem will require resolute political will from many sectors of Nigerian society.

¶19. (U) Congen Lagos coordinated this telegram with Embassy Abuja.

BLAIR